

## **Proposition 1C**

### **Follow-Up Accountability**

In addition, the Executive Order requires that department expenditures of bond proceeds be subject to audit to determine whether the expenditures made from bond proceeds were made according to the established front-end criteria and processes, were consistent with all legal requirements and achieved the intended outcomes.

### **HCD**

- As indicated above, Proposition 1C funds are not disbursed until the responsible HCD staff has determined the conditions of the contract and regulatory agreement have been met. This includes review in two separate organizationally separate groups, before a disbursement request is sent to the HCD accounting office for payment.
- Proposition 1C, like Proposition 46 requires the Bureau of State Audits (BSA) to conduct periodic audits of activities and expenditures of both Proposition 46 and Proposition 1C. The BSA began its first audit of both bonds in May 2007.
- HCD Audit Division conducted an initial audit of its Proposition 46 funds in June 2006 and, subject to approval of staffing requested to implement Proposition 1C, will also conduct annual audits of Proposition 1C programs, processes and expenditures. A specific plan for the scope of these audits and risk assessment is under development to ensure audits are targeted to areas that will add the most value, such as areas not typically covered in periodic BSA audits or HCD's long term monitoring program.
- HCD has established a long term asset management program which is responsible for monitoring loans and grants during the period covered by the contracts and regulatory agreements applicable to each. For many programs, this is the period during which the applicant has promised to make the housing available and affordable to targeted populations such as lower income households, farm workers, homeless or disabled, among others.
- The most in depth oversight and monitoring requirements are associated with HCD's affordable rental housing portfolio. This is because the borrowers and grantees of these programs receive larger awards and have promised to provide safe and affordable housing in the developments they build to targeted populations, as specified in the program statutes, regulations or guidelines, contract and regulatory

agreement for periods of 55 years or longer. HCD's monitoring program begins after the loan or grant closing and includes the review of annual reports from the borrowers/grantees regarding the projects operating budget, reserves, occupancy as well as on site monitoring at least once every three years. For greater efficiency, the

- Department coordinates on site monitoring efforts for rental housing with those of California Housing Finance Agency and the Tax Credit Allocation Committee (TCAC) in the State Treasurer's Office.
- The frequency of on site monitoring depends on the performance of the project in terms of financial viability, physical condition of the building(s) and compliance with occupancy requirements. In addition, all rental housing developments funded through Proposition 46 and Proposition 1C are required to submit an annual independent audit of the project. The Department also has a subunit within its asset management group that intervenes to help resolve any non complying conditions identified in the monitoring or audit process.
- In the case of homeownership housing development grant programs and Downpayment assistance programs funded by proposition 1C, an appropriate longer term monitoring program is under development. For these programs, the borrower or grantee is a local government that either provides Downpayment assistance or homeowner rehabilitation loans or develops homeownership housing in partnership with a private housing developer to be made available to low and moderate income first time homebuyers. Loans to individuals are repaid to the local government to continue affordable homeownership efforts. The process is expected to include program results reporting as well as audits of an appropriate sample of awards over time.
- Appropriate monitoring and audit processes for the newly created Transit Oriented Development program will be included as a part of program development.
- Appropriate monitoring and audit processes for Proposition 1C programs subject to enabling legislation will be developed upon enactment of the programs, as a part of program implementation efforts.

## **CalHFA**

- In addition to the quality assurance and monitoring and reporting functions listed above, CalHFA has contracted with the independent auditing firm of Deloitte Touche to perform certain agreed-upon procedures for the Prop 1C funds. Procedures will be conducted in accordance with standards

established by American Institute of Certified Public Accountants. Specifically, CalHFA will require auditors to:

1. Fully review the California Homebuyer's Down Payment Assistance Program (CHDAP) Guidelines.
2. Obtain the CHDAP Commitment/Disbursement Schedules for each fiscal year period.
3. Review the eligibility requirements for CHDAP loans, program announcements and commitments.
4. For each selected CHDAP loan, determine if the amount of funds committed/disbursed was used for the specified purpose. Determine if borrower qualifies based on income level and sales price, or other criteria that may be established.
5. For each selected CHDAP loan, determine that the proper loan agreement/lien was recorded against the property.